

Thursday, January 07, 2016

## FX Themes/Strategy/Trading Ideas

- Pending risk appetite swings, the greenback (note softer UST yields overnight) may continue to hesitate slightly selectively after the latest FOMC minutes cited the dollar as a potential drag on inflation.
- Note however that Negative global equities/commodities accompanied by expanding EM risk premiums tipped the **FXSI (FX Sentiment Index)** into **Risk-Off** territory on Wednesday and this may continue to precipitate a flight from the cyclicals and EM. On this front, the JPY may continue to outperform across the board at the expense of the CAD and antipodeans.
- Our idea to be short **GBP-USD** from 21 Dec 15 (spot ref: 1.4917) achieved its 1.4620 objective on Wednesday. We extend our target to 1.4330, trailing the stop to 1.4770 (please refer to table below).
- Meanwhile our 21 Dec 15 idea to be short **USD-JPY** (spot ref: 121.15) also reached its 118.65 target on Wednesday. We see potential for further heaviness in the pair and now look for a 116.20 objective, trailing the stop to 119.90 (please refer to table below).

## Asian FX

- Asian currencies (much like their EM counterparts) may continue to take cues from risk aversion cues and the CNH despite a slightly unsteady broad dollar within G7 space. As such, expect the **ACI (Asian Currency Index)** to continue to reach higher (i.e., stronger USD) in the near term with the KRW and MYR the poster boys of depreciation (against the USD) in the year to date.
- The yet higher USD-CNY mid-rate this morning (6.5646) has pushed the **CFETS RMB Index** down to 100.53 from 100.80 on Wednesday. **Since early-mid November, the index has been on a largely uninterrupted decline lower and we see risk of a further official push towards the 100.00 level (as a first stop) for the CFETS Index.** To reiterate, this should not be perceived as a discretionary push to cheapen the currency on competitiveness grounds but rather an attempt to steer the CNY's broad valuation to be in line with the underlying macro (and balance of payments) fundamentals. Currently, the index is reflecting a -0.75% yoy depreciation. Meanwhile, short-term CNH vols continue to be lifted with the basis between the CNH and the CNY continuing to widen to uncharted territory. Expect official discomfort to materialize.

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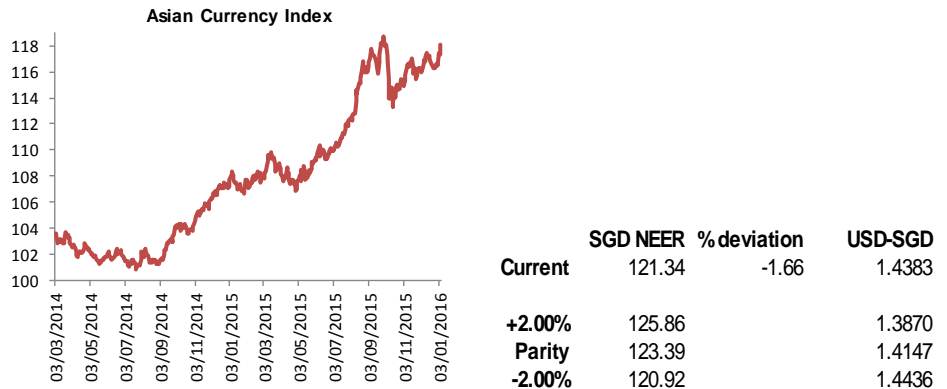
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- With USD-SGD firming above 1.4350 even as NEER-implied USD-SGD thresholds gained, the **SGD NEER** is lower this morning relative to its estimated parity (1.4147) at around -1.51%. At current levels, the -2.00% lower boundary of the NEER fluctuation band is estimated at around 1.4435. The pair may potentially be looking slightly over extended in the near term from a technical perspective although the upside bar has been raised to 1.4400 (ahead of the NEER boundary) pending further developments on the risk and RMB front.

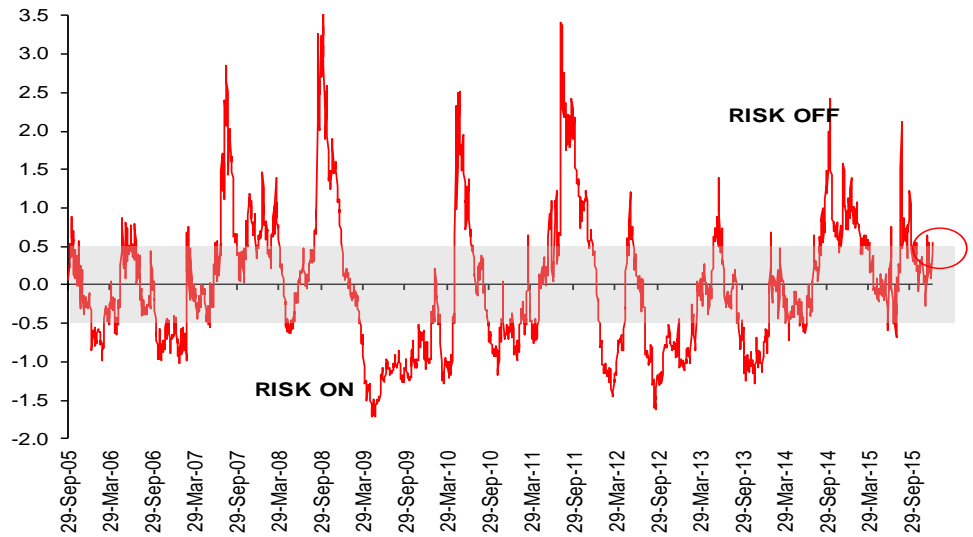


Source: OCBC Bank

## G7

- **EUR-USD** The EUR managed to garner some support on Wednesday from the better than expected services/composite PMI readings while the Fed minutes also provided some buoyancy at the margins. Elsewhere, rate differential arguments have also in recent sessions provided a floor for the pair. In the near term, expect some consolidative behavior around the 1.0800 handle, with the pair likely book-ended by 1.0700 on the downside and the 55-day MA (1.0837) on the upside.
- **USD-JPY** The pair may retain a heavy tone despite supportive comments from the Fed's Fischer following the latest FOMC minutes and sustained risk aversion. If 118.00 is violated with conviction, the next key support only kicks in towards 116.20.
- **AUD-USD** Souring sentiment (note circuit breaker for Chinese stocks triggered again) in Asia on Thursday may potentially compel the pair to seek out the key 0.7000 floor ahead of 0.6940. In the near term, Fed-inspired broad dollar cues are expected to be ignored in favor of risk appetite considerations.
- **GBP-USD** Rate differential arguments may continue to weigh on the pound versus the dollar with the disappointing Markit services PMI (55.5) providing added weight. Stay heavy on the pair and at this juncture, 1.4600 remains in sight.

### FX Sentiment Index



Source: OCBC Bank

### 1M Correlation Matrix

	DXY	USGG10	CNY	SPX	MSELCA	CRY	JPY	CL1	VIX	ITRSEX
DXY	1.000	-0.374	-0.289	0.409	0.517	0.240	0.537	0.313	-0.458	-0.462
CHF	0.879	-0.330	-0.568	0.604	0.623	0.584	0.636	0.643	-0.522	-0.658
JPY	0.537	-0.135	-0.823	0.460	0.272	0.541	1.000	0.483	-0.279	-0.681
SGD	0.339	-0.346	0.480	-0.307	-0.237	-0.558	-0.195	-0.568	0.344	0.269
AUD	0.054	0.298	-0.478	0.694	0.621	0.833	0.153	0.804	-0.582	-0.630
PHP	-0.042	-0.266	0.129	-0.635	-0.650	-0.587	0.083	-0.442	0.646	0.593
IDR	-0.155	-0.110	-0.188	-0.370	-0.710	-0.208	0.342	-0.313	0.724	0.199
TWD	-0.263	0.063	0.703	-0.490	-0.106	-0.626	-0.676	-0.656	0.228	0.407
GBP	-0.264	-0.275	-0.684	-0.049	-0.334	0.450	0.454	0.293	0.435	-0.238
CAD	-0.270	0.095	0.972	-0.574	-0.382	-0.910	-0.763	-0.837	0.290	0.813
CNH	-0.279	0.107	0.957	-0.496	-0.450	-0.842	-0.802	-0.763	0.345	0.808
CNY	-0.289	0.208	1.000	-0.467	-0.338	-0.857	-0.823	-0.745	0.233	0.806
CCN12M	-0.319	0.066	0.784	-0.395	-0.273	-0.582	-0.801	-0.567	0.258	0.566
INR	-0.319	-0.111	-0.460	-0.126	-0.558	0.185	0.330	0.083	0.547	0.004
THB	-0.330	-0.068	0.850	-0.728	-0.499	-0.854	-0.727	-0.849	0.520	0.788
KRW	-0.339	-0.098	0.462	-0.761	-0.846	-0.736	-0.319	-0.786	0.792	0.679
USGG10	-0.374	1.000	0.208	0.249	0.076	-0.022	-0.135	0.072	-0.285	0.057
MYR	-0.377	0.101	0.882	-0.527	-0.571	-0.854	-0.725	-0.734	0.442	0.892
NZD	-0.465	0.486	0.793	-0.068	-0.118	-0.434	-0.851	-0.328	-0.069	0.573
EUR	-0.949	0.366	0.483	-0.523	-0.574	-0.446	-0.638	-0.498	0.466	0.606

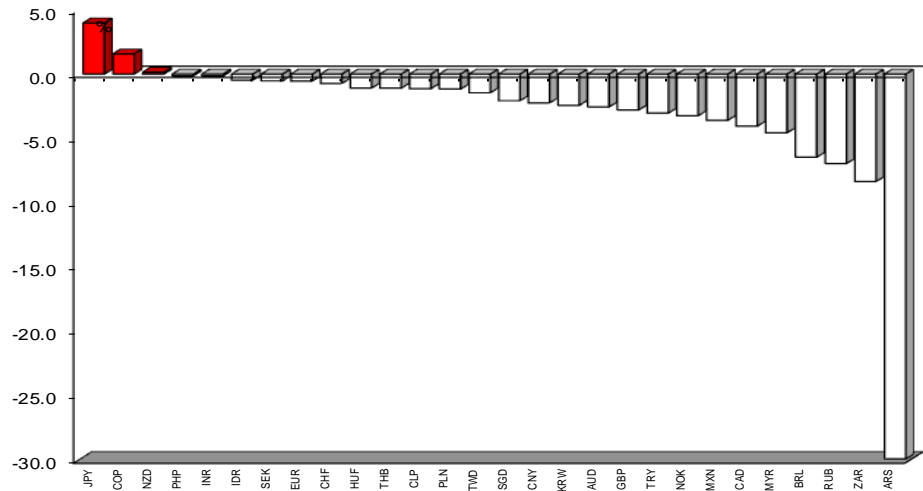
Source: Bloomberg

### Immediate technical support and resistance levels

	S2	S1	Current	R1	R2
EUR-USD	1.0700	1.0753	1.0779	1.0800	1.0820
GBP-USD	1.4600	1.4602	1.4632	1.4700	1.5049
AUD-USD	0.7000	0.7049	0.7080	0.7083	0.7100
NZD-USD	0.6600	0.6638	0.6643	0.6671	0.6700
USD-CAD	1.3690	1.4000	1.4068	1.4079	1.4100
USD-JPY	118.25	118.49	118.57	119.00	121.61
USD-SGD	1.4300	1.4332	1.4359	1.4391	1.4400
EUR-SGD	1.5285	1.5400	1.5477	1.5500	1.5577
JPY-SGD	1.2067	1.2100	1.2112	1.2141	1.2200
GBP-SGD	2.0720	2.1000	2.1010	2.1100	2.1166
AUD-SGD	1.0100	1.0163	1.0167	1.0200	1.0222
Gold	1083.80	1093.53	1094.30	1098.80	1100.00
Silver	13.64	14.00	14.02	14.10	14.33

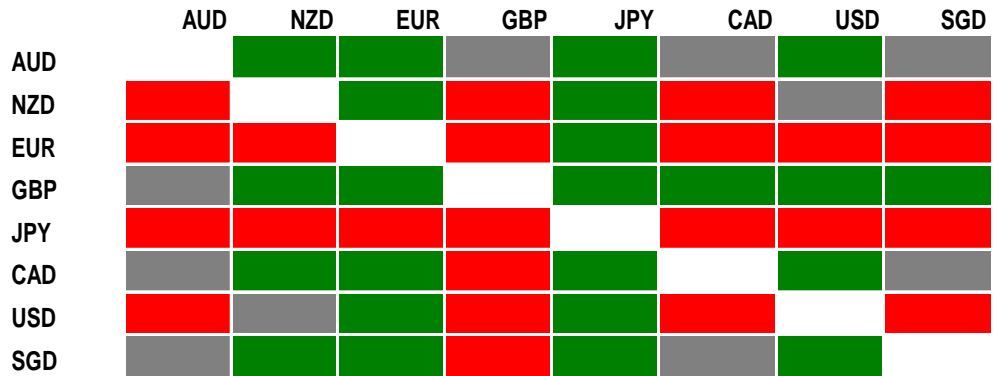
Source: OCBC Bank

**FX performance: 1-month change agst USD**



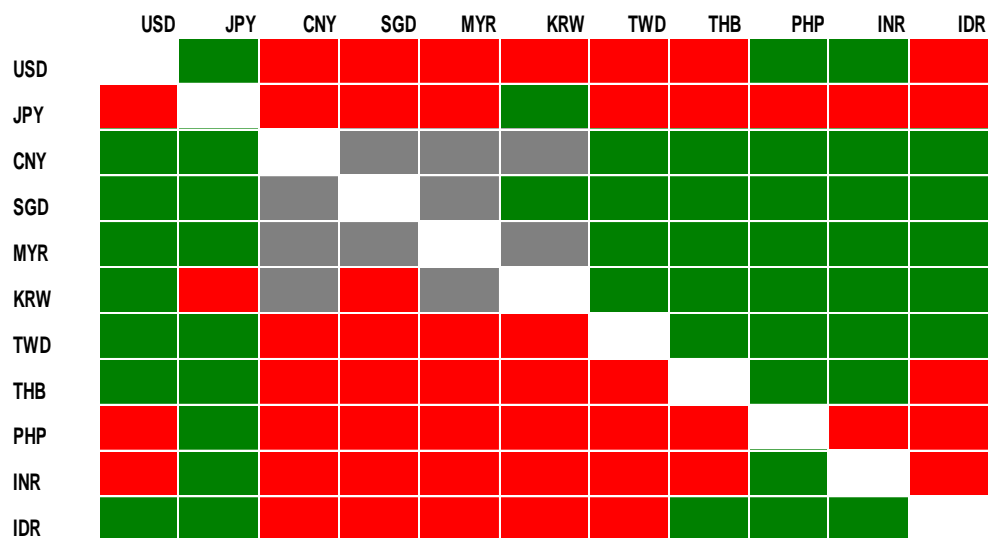
Source: Bloomberg

**G10 FX Heat Map**



Source: OCBC Bank

**Asia FX Heat Map**



Source: OCBC Bank

### FX Trade Ideas

	Inception	B/S	Currency	Spot	Target	Stop/Trailing stop	Rationale	
1	10-Nov-15	B	USD-CAD	1.3276	1.4230	1.3740	USD strength vs. weak crude	
2	21-Dec-15	S	USD-JPY	121.15	116.20	119.90	Disappointment towards a less dovish than expected BOJ	
3	21-Dec-15	S	GBP-USD	1.4917	1.4330	1.4770	Negative chatter surrounding BREXIT and sustained dissipation towards BOW hawkishness	
4	04-Jan-16	B	USD-SGD	1.4229	1.4485	1.4100	Asian FX weakness, RMB jitters	
STRUCTURAL								
5	18-Dec-15	S	GBP-USD	1.4909	1.4195	1.5270	Broad dollar strength post-liftoff may	
6	29-Dec-15	S	USD-JPY	120.25	113.45	123.70	Japanese macro and flow	
7	29-Dec-15	B	USD-CAD	1.3886	1.4520	1.3565	Central bank policy dichotomy in addition to structurally soft crude	
Recently Closed								
	Inception	Close	B/S	Currency	Spot	Close	Rationale	P/L (%)
1	30-Dec-15	05-Jan-16	S	AUD-USD	0.7287	0.7150	Stabilizing commodities/equities into year-end coupled with diffused USD strength	-1.89

Source: OCBC Bank

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